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UNCLAS SECTION 01 OF 02 LAGOS 001443

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TAGS: EFIN ECON EINV NI
SUBJECT: FINANCE MINISTER ANNOUNCES INSURANCE INDUSTRY REFORM

REF: LAGOS 01405

Summary

¶1. (SBU) Summary. Finance Minister Okonjo-Iweala recently unveiled Government of Nigeria's (GON) insurance industry reforms aimed at raising the capital base requirements for insurance companies by February 28, 2007. The goal is to consolidate and strengthen the insurance industry along the lines of the bank recapitalization process (reftel). Insurance experts generally agree the long-term benefits are positive, but predict fewer insurance companies will likely survive. Unlike the banking sector, the insurance industry is much more limited in its ability to raise capital. Analysts predict only 10 to 20 out of over 100 insurance companies will make the 2007 deadline. End Summary.

Recapitalization of Insurance Companies

¶2. (U) Finance Minister Ngozi Okonjo-Iweala announced September 5th the GON's program to raise minimum capital base requirements for insurance companies. The GON will now require life insurance companies to increase minimum capital base from naira 100 million (USD 758,000) to naira two billion (USD 15 million). Non-life insurance companies must go from naira 200 million (USD 1.5 million) to naira 3 billion (USD 22 million), and reinsurance companies must grow from naira 350 million (USD 2.6 million) to naira 10 billion (USD 75 million). Industry experts believe most of the over 100 insurance companies will not meet the requirement.

Experts Predict 10-20 Companies

¶3. (SBU) Most financial experts see a need to sanitize the insurance industry. Layi Adetomiwa, Head of Finance at UAC PLC, one of the largest diversified business companies in Nigeria, stated the large insurance companies were likely to merge or acquire smaller companies in order to raise the needed capital. Kofo Majekodunmi, Deputy Managing Director of MBC International Bank, told us "insurance companies would have a much harder time raising capital through Initial Public Offerings (IPOs)" than banks. Deputy Managing Director of GTBank, Bolaji Lawal concurred. They both felt insurance companies would have a more difficult time because there was no "strong insurance culture" in Nigeria.

¶4. (SBU) Titi Shodeinde, Head of Retail Insurance at Heirs Insurance, indicated the capital requirements will be difficult to meet because they are also cumulative. For example, her company sells both life and non-life insurance, meaning they will need to raise naira 5 billion (2 billion for life plus 3 billion for non-life) in capital. Bismarck Rewane, CEO of Financial Derivatives and one of Nigeria's most insightful financial minds, also agrees fewer insurance companies will survive the recapitalization requirements. Analysts predict 10 to 20 companies will make the 2007 deadline.

¶5. (SBU) Currently, no company meets the new requirement. Possible survivors include the 11 largest insurance companies in Nigeria. These companies are: Linkage Assurance, NICON Insurance, AIICO Insurance, Industrial and General Insurance, Unitrust Insurance, Niger Insurance, The Lion of Africa Insurance, Royal Exchange Assurance, Leadway Assurance, Cornerstone Insurance, and Alliance and General Insurance Company. AIICO Insurance Manager for Group Life and Pension, Tunde Adebari, however, stated his company and other large insurance companies have been raising their capital base several months in anticipation of the September 5 announcement.

Comment

¶6. (SBU) Comment. With more than 18 months remaining, large insurance companies are likely to raise capital through combinations of mergers, private placements and Initial Public Offerings. Unlike the banking sector, the insurance sector is likely to face greater difficulty in raising capital because of weak returns, lack of a strong insurance culture, and low penetration in the market. It is a fact of life that most Nigerians do not purchase life insurance, health insurance, or vehicle insurance. Thus, at the end of the day, there will be substantially fewer companies than what now exists. These companies should be stronger with the ability to provide more and better service, at least theoretically. Having fewer, stronger companies can bring order to the sector as well as generate greater public confidence and understanding. If the reforms move the industry toward these objectives, the reforms would prove to have been worthwhile. End Comment.
BROWNE